Audit Report

OFFICE OF THE INSPECTOR GENERAL

PRICING AND FINANCIALLY RECONCILING SYSTEMS USED TO SUPPORT THE F-16 AIRCRAFT MULTINATIONAL FIGHTER PROGRAM BUY

Report No. 96-084 March 15, 1996

Department of Defense

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Acronyms

CMCS	Case Management Control System
DFAS	Defense Finance and Accounting Service
DIFS	Defense Integrated Financial System
EPG	European Participating Governments
GAFS	General Accounting and Finance System
MNFP	Multinational Fighter Program
SPO	System Program Office

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March 15, 1996

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Pricing and Financially Reconciling Systems Used to Support the F-16 Aircraft Multinational Fighter Program Buy (Report No. 96-084)

We are providing this audit report for information and use. We performed the audit in response to a request from the Supreme Audit Institutions of Belgium, Denmark, the Netherlands, and Norway. Management comments on a draft of this report were considered in preparing the final report. Management comments were fully responsive and conformed to requirements of DoD Directive 7650.3. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Evelyn R. Klemstine, Audit Program Director, at (703) 604-9172 (DSN 664-9172) or Mr. Robert W. Otten, Audit Project Manager, at (703) 604-9612 (DSN 664-9612 . See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Report No. 96-084 **March 15, 1996**
(Project No. 5LG-0015.01)

Pricing and Financially Reconciling Systems Used to Support the F-16 Aircraft Multinational Fighter Program Buy

Executive Summary

Introduction. This audit was requested by the Supreme Audit Institutions of Belgium, Denmark, the Netherlands, and Norway. In 1975, the U.S. Air Force (Air Force) entered into a foreign military sales arrangement with the European Participating Governments (EPG) of Belgium, Denmark, the Netherlands, and Norway to procure and produce F-16 aircraft under the cooperative program known as the F-16 Multinational Fighter Program. Under that program, the Air Force procured 650 F-16 aircraft and the EPG procured 348 F-16 aircraft. Governed by a June 10, 1975, memorandum of understanding, the program involves a cost-sharing, pricing, and coproducing arrangement between the Air Force and the EPG. The memorandum of understanding provided the framework for implementing the Letter of Offer and Acceptance. The program consisted of four cases, one each for Belgium, Denmark, the Netherlands, and Norway.

Audit Objectives. Our overall audit objective was to determine whether the Air Force and the EPG paid equitable prices based on the provisions of the memorandum of understanding for the engine and airframe. Specifically, the audit was to evaluate the procedures for pricing and billing the cost to deliver the F-16 aircraft to the EPG. In addition, the audit was to review the associated management control program and to ensure that adequate planning existed to complete contract and case closure by December 1997 as scheduled. The contract and case closure objective was covered in Inspector General, DoD, Report No. 95-304, "Quick-Reaction Report on the F-16 Multinational Fighter Program Case Closure Process," September 11, 1995.

Audit Results. The EPG paid an equitable price for F-16 engines when compared to the price paid by the Air Force. Although we were able to evaluate cost factors that accounted for about 88 percent of the unit cost difference between Air Force and EPG airframes, we could not determine whether the EPG paid an equitable price for the F-16 airframes, because there was insufficient supporting documentation to evaluate the remaining 12 percent. However, we have no reason to believe that the EPG did not pay an equitable price when compared to the Air Force airframe price. See Finding A for details.

The Office of the Deputy Under Secretary of the Air Force (International Affairs) and the F-16 System Program Office did not ensure that financial systems used to support the EPG F-16 aircraft were reconciled and that the level lining provision of the memorandum of understanding was met. As a result, a $29 million difference existed between the financial reporting systems of the Air Force and the Defense Finance and Accounting Service Denver Center. Additionally, the financial reporting system of the Defense Finance and Accounting Service contained an $18 million difference between progress payments and the cost to deliver the F-16 aircraft, and differences in the amount that each EPG was level lined for progress payments and the cost to deliver the F-16 aircraft. See Finding B for details.

Material management control weaknesses existed in the Air Force for ensuring that financial reporting systems reconciliations were performed and the level lining provision of the memorandum of understanding was met (Appendix A). See Part I for a discussion of the audit results and Appendix D for a summary of the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the Air Force comply with established procedures to ensure that the financial systems used to support F-16 cases are financially reconciled throughout the life of the cases. We also recommend that the Air Force reconcile differences contained in the financial reporting systems and recompute and properly allocate progress payments and the cost to deliver the F-16 aircraft among the EPG.

Management Comments. The Air Force concurred with the finding and the recommendations contained in the draft report. The Air Force will require case managers to periodically review reconciliation efforts and ensure that the level lining of costs is allocated according to the provision of the memorandum of understanding. The Air Force will also reconcile differences between Air Force and DoD accounting systems bi-yearly throughout the life of the case and reverse duplicate entries identified by this report for the cost to physically deliver an F-16 aircraft. See Part I for a summary of management comments and Part III for the complete text of management comments.

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Part I - Audit Results

Background

F-16 Multinational Fighter Program. This audit was requested by the Supreme Audit Institutions of Belgium, Denmark, the Netherlands, and Norway. In 1975, the U.S. Air Force (Air Force) entered into a foreign military sales arrangement with the European Participating Governments (EPG) of Belgium, Denmark, the Netherlands, and Norway to procure and produce F-16 aircraft under the cooperative program known as the F-16 Multinational Fighter Program (MNFP). Under that program, the Air Force procured 650 F-16 aircraft and the EPG procured 348 F-16 aircraft. Governed by a June 10, 1975, memorandum of understanding, the MNFP involves a cost-sharing, pricing, and coproducing arrangement between the Air Force and the EPG. The memorandum of understanding provided the framework for implementing the Letter of Offer and Acceptance.[1] The F-16 MNFP consisted of four cases, one each for Belgium, Denmark, the Netherlands, and Norway.

Provisions of the Memorandum of Understanding. The memorandum of understanding established a not-to-exceed price[2], based on 1975 dollars, of $6.1 million per EPG aircraft. Additionally, each EPG was required to pay nonrecurring costs of $524,500 per aircraft and a 2-percent administrative surcharge for general management and administrative expenses, to include contract administration services. One-half of the surcharge was collected at case implementation and the remainder was assessed after the F-16 aircraft were delivered. The memorandum of understanding also contained a cost sharing provision that required each EPG to pay a proportionate share of each EPG aircraft delivered, referred to as level lining. Under that provision, each EPG was required to pay a set percentage of each EPG aircraft delivered regardless of which country received the aircraft.

Financial Reporting Systems and Records for the F-16 Aircraft. Although the financial reporting systems for the F-16 MNFP changed during the life of the program, the systems used as of September 1995 include the General Accounting and Finance System (GAFS), which is an Air Force base level system for accounting and finance; the Case Management Control System (CMCS), which is the Air Force foreign military sales financial management system; and the Defense Integrated Financial System (DIFS), which is an integrated DoD system for financial data of foreign military sales for all Military Departments and Defense agencies.

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[1]A Letter of Offer and Acceptance is a contract between the U.S. Government and a foreign government, whereby the foreign government agrees to allow U.S. Government representatives to act on its behalf to procure defense articles and services. For management and information purposes, the Letter of Offer and Acceptance is divided into separate lines for each category of articles or services. Each line is identified by a three digit alpha/numeric code.

[2]The not-to-exceed price includes costs for the airframe, engine, radar, Government-furnished aeronautical equipment, nonrecurring costs, duplicate tooling, and industry management.

Financial reporting systems for the F-16 aircraft tracked all progress payments[3] to F-16 contractors and the cost to deliver all the F-16 aircraft. The Air Force recorded progress payments in GAFS when made to an F-16 contractor and the cost to deliver an F-16 aircraft when each aircraft was physically delivered, which represented the estimated total cost of that aircraft. Level lining percentages were applied to the progress payments and the cost to deliver the F-16 aircraft. The Air Force reported the progress payments and the cost to deliver the F-16 aircraft, as recorded in GAFS, to DIFS through CMCS. At the Defense Finance and Accounting Service (DFAS) Denver Center, DIFS automatically applied the remaining 1 percent administrative surcharge to those aircraft reported as physically delivered to the EPG.

EPG Special Billing Arrangement. The EPG had a special billing arrangement that differed from normal foreign military sales cases. The U.S. Government establishes quarterly payments for normal foreign military sales cases and includes the payment schedule in the Letter of Offer and Acceptance. Under the EPG billing arrangement, the F-16 System Program Office (SPO), which is responsible for all cost aspects of the F-16 MNFP program, and representatives from the EPG discussed the financial requirements and negotiated the next quarterly payment. DFAS Denver Center used those negotiated payments to bill the EPG on a quarterly basis.

Audit Objectives

Originally Announced Audit Objectives. The overall audit objective was to determine whether the U.S. Government and the Air Force honored the provisions of the memorandum of understanding underlying the international agreement. The specific audit objectives were to:

o determine whether the EPG and the Air Force paid equal prices for the F-16 aircraft, except for the agreed to configuration changes and other contract and production considerations, and

o evaluate the management controls that the Air Force had established to ensure that all provisions of the memorandum of understanding were met, the Air Force sold the aircraft on a nonprofit basis, and adequate planning existed to complete contract and case closure in December 1997 as scheduled.

[3]Payments (disbursements) made to contractors or the DoD industrial fund as work progresses under a contract. Payments are made on the basis of cost incurred or percentage of work completed, or of a particular stage of completion accomplished before actual delivery and acceptance of contract items.

Because of the magnitude of the audit, our survey phase focused on the F-16 engine procurements. As a result of the survey work, we reannounced our audit objectives to include the airframe procurements for the F-16 MNFP in the verification phase of the audit.

Reannounced Audit Objectives. Our revised audit objective for the verification phase of the audit was to determine whether the Air Force and the EPG paid equitable prices based on the provisions of the memorandum of understanding for the airframe and engine. Specifically, the audit was to evaluate the procedures for pricing and billing the cost to deliver the F-16 aircraft to the EPG. In addition, the audit was to review the management control program that the Air Force had established to ensure that all provisions of the memorandum of understanding were met and that adequate planning existed to complete contract and case closure by December 1997 as scheduled. The contract and case closure objective was covered in Inspector General, DoD, Report No. 95-304, "Quick-Reaction Report on the F-16 Multinational Fighter Program Case Closure Process," September 11, 1995. See Appendix A for a discussion of the audit process and the management control program and Appendix B for a summary of prior audit coverage related to the audit objectives.

Finding A. Pricing of the F-16 Engine and Airframe for the European Participating Governments

The EPG paid an equitable price for F-16 engines when compared to the price paid by the Air Force. Although we were able to evaluate cost factors that accounted for about 88 percent of the unit cost difference between Air Force and EPG airframes, we could not determine whether the EPG paid an equitable price for the F-16 airframes, because there was insufficient supporting documentation to evaluate the remaining 12 percent. However, we have no reason to believe that the EPG did not pay an equitable price when compared to the Air Force airframe price.

European Coproduction

Under the memorandum of understanding the F-16 engine and airframe contractors were required to place subcontract work with European subcontractors that offered "reasonably competitive" terms. To satisfy the requirements, the engine and airframe contractors had to place with European subcontractors 40 percent of the procurement value of EPG F-16 engine and airframe purchases and 10 percent of the procurement value of Air Force F-16 engine and airframe purchases. Because of the relatively higher European labor rates and the need to make significant investments in new facilities and tooling, F-16 engine and airframe components manufactured by European subcontractors were more costly than components manufactured in the United States. The coproduction premium, along with the F-16 engine and airframe contractors additional costs to manage, coordinate, and provide technical assistance to European subcontractors, was the primary reason the EPG F-16 engines and airframes were more expensive than comparable Air Force F-16 engines and airframes.

F-16 Engine Pricing

EPG F-16 Engine Pricing. The EPG paid an equitable price for F-16 engines when compared to the price paid by the Air Force. We identified the cost factors that accounted for the price difference and examined the methodology used to price the Air Force and EPG engines. The primary difference was attributable to the additional costs the EPG paid to manufacture, final assemble, and test the EPG F-16 engines in Europe.

Air Force Versus EPG Engine Pricing. Under the F-16 MNFP, the Air Force procured 1,035 installed and spare F-16 engines and the EPG procured 410 installed and spare F-16 engines. The first 293 Air Force engines and 142 EPG engines were priced on contract F33657-75-C-0377. Although that contract was the first production contract for the F-16 engine, the Air Force had purchased F-15 engines from Pratt & Whitney on a previous production contract. The F-15 and F-16 engines are identical except for minor configuration changes. For contract F33657-75-C-0377 the Air Force and EPG F-16 engines were priced on three annual production options covering FYs 1978, 1979, and 1980, Each option was broken into three parts, Air Force F-15 engines, Air Force F-16 engines, and EPG F-16 engines. The remaining Air Force and EPG F-16 engines were placed on four follow-on production contracts. We compared the cost of the 293 Air Force and 142 EPG F-16 engines that were priced on the three production options. The average unit cost of 293 Air Force F-16 engines was about $1.8 million, and the average unit cost of 142 EPG F-16 engines was about $2 million, a difference of about $198,000. Table **1** summarizes those factors that comprise the $198,000 cost difference between Air Force and EPG F-16 engines.

Table 1. Analysis of Average Unit Cost Differences Between Air Force and EPG F-16 Engines

Cost Factors	Unit Costs (thousands)	
Air Force engine		$1,829
Additional EPG cost factors:		
Coproduction premiums	$99	
Consortium office expense	74	
General and administrative overhead	30	
Other costs	(5)	
Subtotal		**198**
Total EPG engine		**$2,027**

Differences in Coproduction Premiums. The Air Force paid a $66,000 coproduction premium and the EPG paid a $165,000 coproduction premium per engine, a difference of $99,000 per engine for components produced by European subcontractors. Coproduction premiums represented European subcontractor costs in excess of United States domestic manufacturing costs. To satisfy the memorandum of understanding requirements, the Air Force F-16 engines were primarily domestically manufactured, while the EPG F-16 engines had substantial coproduction work, to include manufacturing, final assembly, and testing of the engines in Europe.

Differences in Consortium Office Expense. The Air Force paid about $10,000 per engine for consortium office expenses and the EPG paid about $84,000 per engine, a price difference of about $74,000. The consortium office expense was the Pratt & Whitney cost to provide coordination and management of the F-16 engine coproduction program, including the costs of a program management office located in Europe. The reason for the price difference was that the consortium office costs were allocated between the Air Force and EPG, based on the amount of European coproduction work performed on the respective engines. Because a greater percentage of the EPG engines were coproduced in Europe, the EPG engines received a higher consortium office cost allocation.

General and Administrative Overhead. The Air Force paid about $176,000 per engine and the EPG paid about $206,000 per engine for general and administrative overhead costs, a price difference of about $30,000. General and administrative overhead costs were based on domestic production costs at the Pratt & Whitney East Hartford, Connecticut, facility. We did not examine the rationale for a price difference between the Air Force and EPG because the general and administrative overhead rates were audited by the Defense Contract Audit Agency and accepted by the contracting officer.

Differences in Other Costs. The Air Force paid about $44,000 per engine and the EPG paid about $39,000 per engine for other costs, a price difference of only $5,000. Other costs included engineering support and technical assistance to support engine and spare parts production and overhead cost specific to the Pratt & Whitney facility in West Palm Beach, Florida. The other costs were based on actual costs incurred. We did not examine the rationale for a price difference between the Air Force and EPG because the $5,000 difference represented a minuscule amount in relation to the total EPG engine price.

F-16 Airframe Pricing

EPG F-16 Airframe Pricing. We believe, based on available data, that the EPG paid an equitable price for the F-16 airframes. Further, airframe costs will be audited by the Defense Contract Audit Agency when Lockheed Martin submits a final price redetermination proposal for contract F33657-75-C-0310.

Air Force Versus EPG Airframe Pricing. The 250 Air Force F-16 airframes were included on two production options with airframe production from 1978 through 1981. The remaining 400 Air Force F-16 airframes were placed on follow-on production contracts. For the EPG, 348 F-16 airframes were priced on two production options. Production option one included 192 EPG F-16 airframes manufactured from 1979 through 1981, and the second production option included 156 EPG F-16 airframes manufactured from 1982 through 1984. We compared the cost of 250 Air Force and 192 EPG F-16 airframes that were scheduled to be manufactured concurrently from 1978 through 1981.

F-16 Airframe Pricing. The average unit cost of 250 Air Force F-16 airframes was $3.6 million, and average unit cost of the 192 EPG F-16 airframes was about $4.9 million, a difference of about $1.3 million. Table 2 summarizes those factors that comprise the $1.3 million cost difference between Air Force and EPG F-16 airframes.

Table 2. Analysis of Average Unit Cost Differences Between Air Force and EPG F-16 Airframes

Cost Factors	Unit Costs (thousands)	
Air Force airframe		$3,634
Additional EPG cost factors:		
Coproduction premiums	$865	
Other charges	88	
General and administrative overhead	126	
Cost adjustments	68	
Not reconciled	160	
Subtotal		**1,307**
Total EPG airframe		**$4,941**

Differences in Coproduction Premiums. The Air Force paid a $337,000 coproduction premium and the EPG paid a $1.2 million coproduction premium per airframe, a difference of $865,000 per airframe for aircraft components produced by European subcontractors. Those figures were based on Lockheed Martin historical costs incurred through 1982 and cost estimates to produce the identical components domestically. Coproduction premiums did not include the cost of the aircraft engine or radar. However, the coproduction premium costs did include labor, material, shipping costs, and applicable overhead rates. We did not review the coproduction premium as the premium estimates were audited in GAO Report No. NSIAD-90-181, "F-16 Program: Reasonably Competitive Premiums for European Coproduction," May 14, 1990.

Differences in Other Charges. Air Force other charges were priced at about $72,000 per airframe and EPG other charges were priced at about $160,000 per airframe, a price difference of about $88,000. Other charges included European travel costs and European project office costs. The main reason for the price difference was that the EPG paid a greater share of those costs because of the higher level of coproduction in Europe. Under the provisions of the memorandum of understanding, 31.9 percent of the technical assistance and coordination costs were allocated to Air Force, and 68.1 percent were allocated to the EPG.

Differences in General and Administrative Overhead. Air Force general and administrative costs were priced at about $220,000 per airframe and EPG general and administrative costs were priced at about $346,000 per airframe, a price difference of about $126,000. For the 250 Air Force airframes the composite rate was about 6.5 percent and for the 192 EPG airframes the composite rate was about 6.9 percent. The 0.4 percent difference in overhead rates accounted for about $19,000 of the $126,000 cost difference. The difference reflects higher European labor rates. The remaining $107,000 was caused by applying the overhead rate to different dollar bases.

Differences in Cost Adjustments. Differences in cost adjustments included Air Force unique cost adjustments totaling about $2,000 per airframe and EPG unique cost adjustments, options, and coproduction costs totaling about $70,000 per airframe. The EPG cost adjustments included added costs to build sound suppressors, fuel storage facilities at European subcontractor facilities, additional European subcontractor test equipment, and miscellaneous cost and overhead adjustments related to European coproduction.

Costs Not Reconciled. We were unable to reconcile $160,000 (about 12 percent) of the cost difference between the Air Force and EPG airframes. Factors that may have accounted for the difference were technical assistance and coordination costs that were included in labor costs; material costs; and higher engineering, manufacturing, and material overhead rates for the EPG. Those factors were "buried" in other costs and the detailed cost data needed to evaluate those factors were not available.

Summary

The EPG paid an equitable price for the F-16 engine when compared to the price paid by the Air Force. Although there were cost factors that accounted for F-16 engine price differences, those differences were attributable to the higher costs to manufacture, final assemble, and test the EPG F-16 engine in Europe. Additionally, the EPG paid an equitable price for the F-16 airframes. Differences in F-16 airframe price were attributable to coproduction premiums, general and administrative overhead, and other unique costs.

Finding B. Reconciling Financial Systems Used to Support the European Participating Governments F-16 Aircraft Buy

The Office of the Deputy Under Secretary of the Air Force (International Affairs) and the F-16 SPO did not ensure that financial systems used to support the EPG F-16 aircraft[4] buy were reconciled and that the level lining provision of the memorandum of understanding was met. The Office of the Deputy Under Secretary of the Air Force (International Affairs) relied on the F-16 SPO to perform financial system reconciliations and to ensure that the provisions of the memorandum of understanding were met. The F-16 SPO believed that financial system reconciliations and any level lining adjustments required by the provisions of the memorandum of understanding could be performed as part of the F-16 MNFP case closure process. As a result, a $29 million difference existed for progress payments between the financial systems of the Air Force and the DFAS Denver Center. Additionally, financial system records of DFAS Denver Center contained an $18 million difference between progress payments and the cost to deliver the F-16 aircraft. The financial system records of DFAS Denver Center also contained differences in the amount that each EPG was level lined for progress payments and the cost to deliver the F-16 aircraft.

Established Criteria for Financial System Reconciliations and the Level Lining Provision

DoD Policies and Procedures. Change 1 of DoD Manual 5105.38-M, "Security Assistance Management Manual," October 20, 1989, chapter 13 - Financial Principles and Procedures establishes the requirement for cases to be reconciled. DoD Manual 5105.38-M states that case reconciliation is not a single action but a series of actions that begins with the implementation of the foreign military sales case and continues through case closure. Included in case reconciliation is the requirement that financial case records of the implementing agencies[5] be in agreement with DIFS records and that the responsible organizations accurately report all proper charges and credits. DoD Manual 5105.38-M requires that the case manager prepare a financial and logistics

[4]Financial records pertaining to the EPG F-16 aircraft refer to financial records of the STA and STB lines of the foreign military sales cases. Line STA was for the model A aircraft and line STB was for the model B (dual seater) aircraft.

[5]The implementing agency for the F-16 MNFP is the Air Force.

management plan; however, the contents of that plan are not discussed in the manual. Additionally, the case manager is responsible for validating that costs are accurate and billed, as well as ensuring that case records are maintained and implementing agencies and DIFS financial system records are in agreement. The manual provides that maintaining current and accurate financial systems records supported by evidence will facilitate the case closure process.

Air Force Policies and Procedures. Air Force Regulation 130-1, "Security Assistance Management," December 16, 1991,[6] sets forth the policy for foreign military sales and assigns responsibilities within the Air Force. The Office of the Deputy Under Secretary of the Air Force (International Affairs) (Office of the Deputy Under Secretary) is the office primarily responsible for central management, direction, guidance, and supervision of foreign military sales programs assigned to the Air Force. Case managers are assigned to the Office of the Deputy Under Secretary. The major commands and other organizations involved in the Air Force foreign military sales are responsible for:

o setting up and maintaining reports, controls, and management procedures to make sure the Air Force obligations are met and

o ensuring that delivery and performance reports are sent to DFAS Denver Center and that proper financial systems reconciliations are performed.

Air Force Regulation 130-1 does not provide guidance on the specific controls that should be used to financially reconcile or who the specific responsibilities for financial system reconciliation should be assigned to.

Level Lining Provision of the Memorandum of Understanding. The memorandum of understanding contained a provision requiring that aggregate costs for the aircraft lines STA and STB be level lined. That provision required each EPG pay a set percentage of each aircraft delivered to the EPG regardless of which country received the aircraft. The percentages were based on the pro rata share of aircraft to be delivered to each country. The following percentages were established in the memorandum of understanding: Belgium - 33.333 percent, Denmark - 16.667 percent, the Netherlands - 29.310 percent, and Norway - 20.690 percent. The level line cost principle did not apply to industry management costs, duplicate tooling costs, and the cost for minor development support equipment.

[6]Superseded by Air Force Manual 16-101, "International Affairs and Security Assistance Management," September 1, 1995.

Controls for Financial System Reconciliations and Level Lining

The Office of the Deputy Under Secretary and the F-16 SPO did not ensure that financial systems used to support the EPG F-16 aircraft were buy reconciled and that the level lining provision of the memorandum of understanding was met.

Controls for Financial System Reconciliations. DoD Manual 5105.38-M and Air Force Regulation 130-1 require financial reconciliations but do provide guidance on the specific controls that should be used. Although the financial and logistics management plan was a possible way to establish specific financial system reconciliation controls, DoD Manual 5105.38-M did not address the contents of that plan. Nevertheless, the Office of the Deputy Under Secretary and the F-16 SPO should have established a mechanism to ensure controls were in place to financially reconcile systems used to support the EPG cases. The case manager in the Office of the Deputy Under Secretary was ultimately responsible for ensuring that financial system reconciliations occurred; however, the case manager relied on the F-16 SPO to establish the procedures to ensure the necessary controls for those financial system reconciliations were in place.

Controls for Memorandum of Understanding Provisions. The memorandum of understanding required that progress payments and the cost to deliver the F-16 aircraft be level lined. Because level lining was unique to the F-16 MNFP, DoD Manual 5105.38-M and Air Force Regulation 130-1 did not contain guidance on how to ensure that the level lining provision was met. However, Air Force Regulation 130-1 states that the Office of the Deputy Under Secretary is primarily responsible for guidance and that the major commands and other organizations involved in foreign military sales are responsible for establishing management controls to ensure that Air Force obligations for the memorandum of understanding are met. Therefore, the Office of the Deputy Under Secretary and the F-16 SPO should have established controls to ensure that financial systems reconciliations were completed and the level lining provision of the memorandum of understanding was met.

Compliance with Financial System Reconciliation and Level Lining Requirements

The Office of the Deputy Under Secretary relied on the F-16 SPO to perform financial systems reconciliations and ensure that the provisions of the memorandum of understanding were met. The F-16 SPO believed that financial systems reconciliations and any level lining adjustments required by the memorandum of understanding provisions could be performed as part of the F-16 MNFP case closure process.

Compliance with the Financial System Reconciliation Requirement. Since 1989, the Office of the Deputy Under Secretary and F-16 SPO have not complied with the financial systems reconciliation requirement of DoD Manual 5105.38-M. That noncompliance occurred because the case manager in the Office of the Deputy Under Secretary relied on the F-16 SPO to perform the required financial systems reconciliations, although the case manager was ultimately responsible for ensuring that financial systems reconciliations were performed. The F-16 SPO believed that financial systems reconciliations were a one-time action that would be performed as part of the F-16 MNFP case closure process. The F-16 SPO planned to begin financial systems reconciliations after the F-16 engine and airframe contracts were closed.

Compliance with the Level Lining Requirement. The case manager in the Office of the Deputy Under Secretary and the F-16 SPO have not complied with the level lining provisions of the memorandum of understanding. That noncompliance occurred because the case manager relied on the F-16 SPO to perform the level lining as required by the memorandum of understanding. The F-16 SPO believed it was acceptable for the level lining of progress payments and the cost to deliver the F-16 aircraft to be within $5 million to $6 million of the level lining required under the memorandum of understanding, as long as the level lining was corrected before case closure. One reason for the improper level lined cost to deliver the F-16 aircraft was that the F-16 SPO did not level line the costs for the Government-furnished equipment installed on the F-16 aircraft. The F-16 SPO planned to level line the Government-furnished equipment during the case closure process.

European Participating Governments F-16 Aircraft Financial System Records

Because the Office of the Deputy Under Secretary and the F-16 SPO did not ensure that financial system reconciliations were performed and the level lining provisions of the memorandum of understanding were met, there were differences in the financial system records for the EPG F-16 aircraft.

Progress Payments in GAFS and DIFS. A $29 million difference existed for progress payments between the GAFS records of the Air Force and DFAS Denver Center DIFS records for the F-16 aircraft. The GAFS records indicated that the Air Force made progress payments totaling $3,069 million. However, DIFS records indicated that those same progress payments totaled $3,098 million. CMCS transferred progress payments recorded in GAFS into DIFS. Therefore, throughout the life of the case, progress payments in the GAFS and DIFS financial systems should have reconciled because the DIFS records were based on entries in the Air Force systems. Timely reconciliation was necessary to identify errors, make corrections, correct the cause of the error, and ensure DIFS reported the most current cost to physically deliver the F-16 aircraft.

Progress Payments and the Cost to Deliver the F-16 Aircraft in DIFS. The DFAS Denver Center DIFS records contained an $18 million difference between progress payments and the cost to deliver the F-16 aircraft. DIFS indicated that progress payments of $3,098 million were made; however, DIFS indicated that the cost to deliver the F-16 aircraft was $3,116 million. At case closure, all progress payments must equal the cost to deliver the F-16 aircraft. Progress payments and the cost to deliver the F-16 aircraft should have been the same after all relevant data were recorded following delivery of the last EPG aircraft in 1984.

Duplicate Entries for the Cost to Deliver the F-16 Aircraft. We were unable to determine all the causes for the $18 million difference; however, we did find that CMCS and DIFS financial system records contained eight instances of duplicate entries, valued at about $2.5 million, for the cost to deliver the F-16 aircraft. Those duplicate entries, which occurred in 1984, were one of the reasons that all progress payments did not equal the cost to deliver all the aircraft. Table 3 shows by country the F-16 aircraft tail number and amount of the duplicate entry.

Table 3. Duplicate Entries for Cost to Deliver the F-16 Aircraft per CMCS and DIFS

Country	Aircraft Tail Number	Amount Duplicated
Denmark	80-3557	$ 276,329
Denmark	80-3558	313,741
Denmark	80-3559	313,741
Denmark	80-3638	313,778
Denmark	80-3639	313,778
Denmark	80-3673	313,649
Denmark	80-3674	303,922
Norway	80-3610	313,881
Total		**$2,462,819**

The reversal of the duplicate entries, identified in Table 3, is required as part of the financial system reconciliation of the EPG F-16 aircraft.

Administrative Surcharge for Duplicate Entries for the Cost to Deliver the F-16 Aircraft. The duplicate entries for the cost to deliver the F-16 aircraft also affected the application of the 2-percent administrative surcharge. One-half of the administrative surcharge (1 percent) was applied when the cases were implemented. The remaining 1 percent was applied based on the cost to deliver the F-16 aircraft. Because the cost to deliver the F-16 aircraft was overstated by $2.5 million, the erroneous application of the 1-percent administrative surcharge totaled about $25,000. That surcharge will automatically be reversed after the duplicate entries are corrected in DIFS.

Level Lining of Progress Payments in GAFS and DIFS. The F-16 SPO issued guidance on level lining to the Air Force Contract Management Division, which made progress payments. The F-16 SPO did not ensure that progress payments were level lined in accordance with the provisions of the memorandum of understanding. As a result, level lining differences existed in GAFS and DIFS financial system records. Table 4 shows the differences in GAFS records for the level lined progress payments.

Table 4. Differences in the Level Lined Progress Payments per GAFS

	Progress Payments			
	A	B	C	A - C
Country	GAFS Records (millions)	Level Lined Percent	GAFS Records Properly Level Lined[1] (millions)	Difference (millions)
Belgium	$1,024.1	33.333	$1,022.8	$1.3
Denmark	509.8	16.667	511.4	(1.7)
Netherlands	899.8	29.310	899.4	0.4
Norway	634.9	20.690	634.9	0.0
Total	**$3,068.5[2]**		**$3,068.5**	**$0.0**

[1]Total of A ($3,068.5 million) times level lined percent per country.

[2]Total does not equal the sum of costs for countries due to rounding.

Table 5 shows the differences in DIFS records for the level lined progress payments.

Table 5. Differences in the Level Lined Progress Payments per DIFS

	Progress Payments			
	A	B	C	A - C
Country	DIFS Records (millions)	Level Lined Percent	DIFS Records Properly Level Lined[1] (millions)	Difference (millions)
Belgium	$1,028.2	33.333	$1,032.5	($4.3)
Denmark	516.8	16.667	516.3	0.5
Netherlands	909.8	29.310	907.9	1.9
Norway	642.7	20.690	640.9	1.8
Total	**$3,097.6**[2]		**$3,097.6**	**$0.0**[2]

[1]Total of A ($3,097.6 million) times level lined percent per country.

[2]Total does not equal the sum of costs for countries due to rounding.

Level Lining of the Cost to Deliver the F-16 Aircraft in CMCS and DIFS. The F-16 SPO did not level line the cost to deliver the F-16 aircraft according to the provisions of the memorandum of understanding for Government-furnished equipment. That resulted in differences in CMCS and DIFS financial system records. The cost to deliver the F-16 aircraft and the differences were about equal in both records. Table 6 shows the difference in CMCS and DIFS records for the cost to deliver the F-16 aircraft.

Table 6. Differences in the Level Lined for Cost to Deliver the F-16 Aircraft per CMCS and DIFS

	Cost to Delivery the F-16 Aircraft			
	A	B	C	A - C
Country	DIFS Records (millions)	Level Lined Percent	DIFS Records Properly Level Lined[1] (millions)	Difference (millions)
Belgium	$1,030.2	33.333	$1,038.5	($8.3)
Denmark	522.8	16.667	519.3	3.5
Netherlands	914.8	29.310	913.2	1.6
Norway	647.7	20.690	644.6	3.1
Total	**$3,115.5**		**$3,115.5[2]**	**$0.0[2]**

[1]Total of A ($3,115.5 million) times level lined percent per country.

[2]Total does not equal the sum of costs for countries due to rounding.

EPG F-16 Aircraft Financial System Records. The differences in progress payments, cost to deliver the F-16 aircraft, and level lining did not affect the amount of the EPG quarterly payments because of the special billing arrangement established for the EPG. Under the special billing arrangements, quarterly payments were negotiated between the EPG and the F-16 SPO. DFAS Denver Center billed the payments to the EPG. However, because of the differences in the amount of progress payments and the inaccurate level lining of the progress payments, we could not determine the actual amount of each country's funds that were expended for the STA and STB lines of the four EPG cases.

Summary

The F-16 SPO planned to financially reconcile the systems used to support the four EPG cases during the case closure process, as well as ensure that each EPG paid its proportionate share of all the aircraft delivered. Since 1989, reconciliation of the financial systems used to support the program should have occurred based on the requirement established by DoD Manual 5105.38-M for case reconciliations. Reconciling the financial systems of foreign military sales cases throughout the life of the case is important to ensure that current and accurate information about the case is available. That information aids not only those responsible for executing the case, but also the customer. Further, ensuring that financial system records are current and accurate expedites the case closure process. Meeting the level lining provision of the memorandum of

understanding is important to ensure that each EPG is billed its proportionate share for the cost to deliver the F-16 aircraft. Additionally, complying with the memorandum of understanding is necessary to carry out the fiduciary responsibility assumed by DoD when it accepts foreign military sales cases.

Recommendations for Corrective Action

B.1. We recommend that the Deputy Under Secretary of the Air Force (International Affairs):

a. Comply with established procedures to ensure that current and future F-16 foreign military sales cases financial systems are reconciled throughout the life of the case.

b. Establish procedures to ensure that the provisions of the F-16 Multinational Fighter Program memorandum of understanding are met.

B.2. We recommend that the Commander, F-16 System Program Office, Aeronautical Systems Center, Air Force Materiel Command:

a. Establish procedures to ensure that financial systems used to support current and future F-16 foreign military sales cases are reconciled throughout the life of the case.

b. Reconcile progress payment differences between the records of the General Finance and Accounting System and the Defense Integrated Finance System.

c. Reconcile differences between progress payments and the cost to deliver the F-16 aircraft in the Defense Integrated Finance System financial system records.

d. Reverse duplicate entries for the cost to deliver the F-16 aircraft.

e. Reconcile the level lined costs for progress payments and the cost to deliver the F-16 aircraft based on the level line percentages required in the memorandum of understanding.

Management Comments

Management Comments. The Air Force concurred with the recommendations. The Deputy Under Secretary of the Air Force (International Affairs) will include a statement in the International Program Directive requiring case managers to periodically review the progress of financial reconciliation efforts. The F-16 SPO plans to initiate procedures to reconcile the GAFS financial systems with DIFS on a bi-yearly basis. Additionally, the F-16 SPO will correct the duplicate delivery reporting entries that the report identified. The F-16 SPO also plans to ensure that level lining is performed in accordance with the provision of the memorandum of understanding during the case reconciliation process. Actions taken in response to the recommendations will be completed by June 1, 1996.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

F-16 Engine Pricing. From 1978 through 1984, the Air Force received 1,035 installed and spare F-16 engines and the EPG received 410 installed and spare F-16 engines, valued at about $3.6 billion. The F-16 engines were purchased on five production contracts awarded to Pratt & Whitney Corporation (Pratt & Whitney). We selected for review engine contract F33657-75-C-0377, dated January 1975. It was a fixed-price-incentive contract that included 293 Air Force engines totaling about $610.3 million and 142 EPG engines totaling about $328.6 million. We selected that contract for review because it was the first and largest F-16 engine contract, and F-16 engine prices on the four fixed-price contracts that followed were developed using the cost and pricing data established on the first contract.

For engine contract F33657-75-C-0377, we reviewed the July 5, 1977, price proposal, identified the cost elements that comprised the price of Air Force and EPG F-16 engines, and evaluated the methodology and rationale used to develop the major elements of cost. We reviewed the price negotiation memorandum from December 28, 1977, and the rationale for the final negotiated prices for that contract. Further, we reviewed the Pratt & Whitney March 15, 1991, final price redetermination proposal and the associated Defense Contract Audit Agency audit reports, dated September 30, 1994, and January 13, 1995. We compared the cost elements and final price of Air Force and EPG F-16 engines and evaluated the rationale for any price differences between the two.

Limitations of Scope on F-16 Engine Pricing Review. We were unable to examine Air Force pricing documentation that was used to negotiate a baseline price of the F-16 engines. The Air Force did not retain supporting documentation, prepared in the mid to late 1970s.

F-16 Airframe Pricing. From 1979 through 1984, the Air Force received 650 F-16 airframes and the EPG received 348 F-16 airframes. The F-16 airframes were purchased on three production contracts awarded to General Dynamics-Fort Worth Division (now Lockheed Martin Tactical Aircraft Systems). We reviewed airframe contract F33657-75-C-0310, dated January 13, 1975, a fixed-price-incentive-fee contract that included 250 Air Force F-16 airframes totaling about $1 billion, and 348 EPG F-16 airframes totaling about $1.9 billion. As part of our pricing review of 650 Air Force and 348 EPG airframes, we compared the cost of 250 Air Force and 192 EPG F-16 airframes scheduled to be manufactured in three production options from 1978 through 1981. To ensure the same type of data were compared, we evaluated the same production lots over the same time frame. We did not review the remaining 400 Air Force F-16 airframes and the remaining 156 EPG

F-16 airframes manufactured from 1982 through 1984, because our review of contract F33657-75-C-0310 production options from 1978 through 1981 indicated no unfair or unreasonable prices.

For F-16 airframe contract F33657-75-C-0310 we reviewed the April 18, 1977, price proposal and price negotiation memorandum of May 2, 1978, that identified the cost elements that comprised the price of Air Force and EPG F-16 airframes. We reviewed the methodology and rationale used to develop F-16 airframe cost elements and allocate costs between the Air Force and EPG. We reviewed Defense Contract Audit Agency audit reports, dated November 30, 1976; May 23, 1977; and January 9, 1978, and the rationale for the final negotiated prices for that contract. We also reviewed Lockheed Martin-Tactical Aircraft Systems (Lockheed Martin) documentation, dated June 3, 1983, that identified coproduction premiums on the F-16 airframes.

Limitations of Scope on F-16 Airframe Pricing Review. We were unable to examine Air Force pricing documentation used to establish a negotiating baseline price of F-16 airframes because the Air Force did not retain those supporting records. As of September 1995, Lockheed Martin had not submitted an acceptable final price redetermination proposal for contract F33657-75-C-0310. In 1991, the Defense Contract Audit Agency returned the Lockheed Martin initial final price redetermination proposal because Lockheed Martin did not have an accounting system that properly allocated and accounted for all costs. Until the final price redetermination proposal is submitted and the Defense Contract Audit Agency audits it, the actual airframe cost to the EPG will not be known. In addition, the Defense Contract Audit Agency stated that numerous incomplete and unresolved tasks, including accountability of furnished material and reconciliation and disposition of equipment and material, need to be resolved before the final price redetermination proposal will be audited.

Reporting the Cost to Deliver the F-16 Aircraft. We reviewed the procedures for determining the cost to deliver the F-16 aircraft to the EPG, the recording of the cost to deliver the F-16 aircraft, and the related documentation from program implementation through March 1995. To determine whether the provisions of the memorandum of understanding were met we reviewed:

- the level lining of progress payments to F-16 contractors and the cost to deliver the F-16 aircraft,
- the recording of the nonrecurring costs, and
- the application of the 2-percent administrative surcharge.

We reviewed balances of progress payments contained in GAFS and DIFS but did not review the supporting documentation for those balances because the difference between the two systems was our primary interest. The cost to deliver the F-16 aircraft was charged to six lines on the EPG foreign military sales cases. Our review was limited to three of the seven lines (STA, STB and SUN). Lines STA and STB, valued at about $3,116 million, were for the cost

to deliver the basic F-16 aircraft and did not include configuration changes that were made for a specific country or improved the capability of the F-16 aircraft. Line SUN, valued at about $183 million, was for the nonrecurring charges.

Computer-Processed Data. To achieve the audit objectives, we relied on computer-processed data contained in the CMCS, DIFS, and GAFS. We did not evaluate the general and application controls for reporting disbursements to the F-16 contractors and the cost to deliver the F-16 aircraft, although we relied on the data produced by those systems to conduct the audit. The reliability of the systems was not the audit's primary objective, consequently, alternative testing of the systems was not done to establish data reliability. This report shows differences between the data presented in the three systems reviewed.

Audit Period, Standards, and Locations. We performed this program audit from January through September 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary. We did not use statistical sampling procedures to conduct this audit. See Appendix E for a list of organizations visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the adequacy of the management controls established by the Air Force to ensure that financial systems reconciliations were performed as required and that the provision for level lining costs of the memorandum of understanding was met. Specifically, we reviewed DoD and Air Force policies and procedures on reconciling financial systems used to report the EPG F-16 aircraft buy and management controls over financial systems reconciliations. Additionally, we reviewed the Office of the Deputy Under Secretary and the F-16 SPO management controls for the provisions of the memorandum of understanding relating to the not-to-exceed price of $6.1 million for each EPG aircraft, coproducing arrangements, level lining of costs, and nonrecurring costs. We also reviewed the results of any self-evaluation of those management controls.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38 for the Office of the Deputy Under Secretary and F-16 SPO. The Office of the Deputy Under Secretary and F-16 SPO management controls were not adequate to ensure that financial system reconciliations were performed and the provision of the memorandum of understanding was met. Recommendations 1.a., 1.b., and 2.a., if implemented, will improve financial system reconciliation procedures at the Office of the Deputy Under Secretary and F-16 SPO. Although we could

not quantify the potential monetary benefits associated with management's implementation of the recommendations, we did identify other potential benefits. See Appendix D for a summary of the potential benefits resulting from the audit. A copy of the report will be provided to the senior official in charge of management controls for the Air Force.

Adequacy of Air Force Self-Evaluation. Officials from the Office of the Deputy Under Secretary and F-16 SPO did not designate financial systems reconciliations or provisions of the memorandum of understanding as an assessable unit. Therefore, they did not identify or report the material management control weaknesses identified by the audit.

Appendix B. Prior Audits and Other Reviews

General Accounting Office. The General Accounting Office Report No. NSIAD-90-181, "F-16 Program: Reasonably Competitive Premiums for European Coproduction," May 14, 1990, reviewed the procedures used by General Dynamics Corporation to calculate coproduction premiums for the F-16 MNFP. The report stated that the General Dynamics Corporation had used reasonable methods, suitable data, and accurate computations to set premiums for awarding subcontract work. The report did not identify any miscalculations that caused premium values to be overstated or prevented European subcontract proposals from being reasonably competitive.

Inspector General, DoD. The Inspector General, DoD, Report No. 95-304, "Quick-Reaction Report on the F-16 Multinational Fighter Program Case Closure Process," September 11, 1995, stated that the Office of the Deputy Under Secretary and the F-16 SPO have not put sufficient emphasis on closing the F-16 MNFP contracts. As a result, the Air Force cannot meet the case closure commitment date of December 1997. The report recommended that the Air Force develop additional procedures, plans, and management controls to improve case closure oversight and improve the case closure process for the F-16 MNFP and propose the use of accelerated case closure procedures at the September 1995 Supreme Audit Institutions conference. The report also recommended that the F-16 SPO develop milestones for case, subcase, and contract closure. The Air Force generally concurred with the recommendations.

Appendix C. Other Matters of Interest

Nonrecurring Costs and Administrative Surcharge

The F-16 SPO correctly billed the EPG nonrecurring costs of $524,500 per aircraft based on the provision of the memorandum of understanding. DFAS Denver Center correctly applied the 2-percent administrative surcharge to the F-16 aircraft delivered to the EPG, based on the cost to deliver the F-16 aircraft recorded in DIFS. However, because of the duplicate entries for the cost to deliver the F-16 aircraft, the administrative surcharge was overstated by about $25,000.

Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Type of Benefit
B.1.a., B.1.b., and B.2a.	Management Controls. Establishes management controls to ensure that Air Force and DoD financial reporting systems for F-16 cases are financially reconciled.	Nonmonetary.
B.2.b. through B.2.e.	Program Results. Increases effectiveness and efficiency by reconciling Air Force and DoD financial reporting systems used for the F-16 MNFP cases.	Undeterminable. The amount of funds put to better use will be based on the results of the financial reconciliations.

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC

Department of the Army

Auditor General, Department of the Army, Washington, DC

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller), Washington, DC

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
- Director, Budget Investment, Washington, DC

Assistant Secretary of the Air Force (Acquisition), Washington, DC
- Air Force Program Executive Office Organization, Tactical and Airlift Programs, Washington, DC
- Director of Fighter, Command and Control, and Weapons Programs, Washington, DC

Deputy Under Secretary of the Air Force (International Affairs), Washington, DC
- Europe/NATO/Eurasia Division, Washington, DC

Air Force Materiel Command, Wright-Patterson Air Force Base, OH
- Aeronautical Systems Center, Wright-Patterson Air Force Base, OH
  - F-16 System Program Office, Wright-Patterson Air Force Base, OH
  - Propulsion System Program Office, Wright-Patterson Air Force Base, OH

Air Force Security Assistance Center, Wright-Patterson Air Force Base, OH

Other Defense Organizations

Defense Contract Audit Agency, Arlington, VA
- Northeastern Regional Office, Boston, MA
- United Technologies Eastern Regional Resident Office, Palm Beach Gardens, FL

Other Defense Organizations (cont'd)

Lockheed Fort Worth Company Central Regional Resident Office, Dallas-Fort Worth, TX
Defense Finance and Accounting Service Denver Center, Denver, CO
Defense Logistics Agency, Alexandria, VA
Defense Plant Representative Office, Lockheed Fort Worth Company, Dallas-Fort Worth, TX
Defense Plant Representative Office, Pratt and Whitney Company, Palm Beach Gardens, FL
Defense Plant Representative Office, Pratt and Whitney Company, East Hartford, CT
Defense Security Assistance Agency, Arlington, VA

Non-Government Organizations

Lockheed Martin Corporation, Tactical Aircraft Systems, Fort Worth, TX
United Technologies Corporation, Pratt and Whitney Company
Government Engines and Space Propulsion, West Palm Beach, FL
Manufacturing Operations, East Hartford, CT

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition and Technology)
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Deputy Under Secretary of the Air Force (International Affairs)
Commander, Air Force Materiel Command
  Commander, Aeronautical Systems Center
    Commander, F-16 System Program Office
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Security Assistance Agency
Director, National Security Agency
  Inspector General, National Security Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Foreign Governments

Rigsrevisionen, Assistant Auditor General, Copenhagen, Denmark
Rekenhop, Director of External Auditing, Brussels, Belgium
Rekenkamer, Board of Algemene, EA's-Gravenhage, The Netherlands
Riksrevisionen, Director General, Oslo, Norway

Part III - Management Comments

Department of the Air Force Comments

Final Report
Reference

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE UNDER SECRETARY

08 MAR 1996

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: SAF/IAE

SUBJECT: DoD IG Draft Report No. 5LG-0015.01 "Pricing and Financially Reconciling the F-16 Aircraft Multinational Fighter Program Buy"

This is in reply to your request for Air Force comments on the subject report.

We appreciate the interaction afforded this office in reviewing the draft document. In anticipation of agreed upon changes to the draft, we submit the following comments to the report recommendations on page 13:

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1. We recommend that the Deputy Under Secretary of the Air Force (International Affairs)

a. Follow procedures to ensure that current and future F-16 foreign military sales cases' financial systems are reconciled throughout the life of the case. CONCUR. SAF/IA concurs with the finding. A statement will be included in the International Program Directive requiring case managers to periodically review progress of reconciliation efforts. (ECD 1 Jun 96)

b. Follow procedures to ensure that the provisions of the F-16 Multinational Fighter Program memorandum of understanding are reported accurately. CONCUR. The SAF/IA case manager feels level lining procedures are being followed within the intent of the MOU although periodic checks of the reporting system are not being accomplished. During contractual and finance committee meetings, SAF/IA will ensure level lining is being accomplished accordingly. (Action considered complete).

2. We recommend that the Commander, F-16 System Program Office, Aeronautical Systems Center, Air Force Materiel Command:

a. Follow procedures to ensure the current and future financial reporting systems of the F-16 foreign military sales cases are financially reconciled on a more timely basis throughout the life of the case. CONCUR. Although we have controls in place ensuring effective management of in-house financial FMS funding, we have not cross-checked our GAFS accounting with DIFS on a regular basis. Initiate procedures to reconcile these systems on a bi-yearly basis. (ECD 30 Apr 96).

b. Reconcile delivery reporting of payment discrepancies between the records of the General Finance and Accounting System and the Defense Integrated Finance System. CONCUR. Reference 2a comment. (ECD 1 Jun 96)

c. Delivery report all progress payments and the cost to deliver the F-16 aircraft from the GAFS to the Defense Integrated Finance System. CONCUR. The system program office submit a plan to delivery report all progress payments and cost to deliver F-16 aircraft within applicable guidelines. (ECD 1 May 96)

d. Reverse duplicate entries for the cost to deliver the F-16 aircraft. CONCUR. System program office will submit delivery reports to correct entries. (ECD 30 Apr 96)

e. Reconcile the level lined costs for progress payments and the cost to deliver the F-16 aircraft based on the level line percentages required in the memorandum of understanding through contract and case closure. CONCUR. The EPG level line costs for progress payments have been computed correctly according to the level line principals of the F-16 MOU and recorded in GAFS. Level line should be apparent during reconciliation and action for correction will be taken at that time for correction. (ECD 1 Jun 96)

MICHAEL S. HILL, Lt Col, USAF
Chief, Europe/NATO Division
Deputy Under Secretary, Int'l Affairs

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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